

## **ROLE OF BANKS IN GROWTH OF SMALL RETAIL TRADERS IN ASSAM**

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### **ABSTRACT**

*Business plays a major role in the socio economic development of any country. The importance of small business is increasing day-by-day because of its capability to generate immediate and large scale employment opportunities, less requirement of capital, low cost of production, effective utilization of the unexplored resources and the promotion of balanced regional development and thereby improving the standard of living of the people. So, this study will throw light on the role of banks and its policies and schemes in small retail business, and identify the sources of finance for small retail traders. Through this study we can conclude that the contribution of the commercial banks in financing the working capital needs of the small retail traders are sparse. There is ample scope of growth and development of small retail business which is seen to accommodate a mix of sources of finance especially the plough back of profits.*

**Keywords:** Small Retail Traders, Growth, Banks, Credit Facilities, Contribution

### **INTRODUCTION**

Small retail traders conduct the merchandising businesses with the objective of selling goods at a profit. They buy finished products from wholesalers or manufacturers and retail them to others for consumption (re-sale).

The role of small retail traders has expanded; now they are also the intermediaries between the consumers and manufacturers as they come into direct contact with the consumers. As a result they have also become an important unit in the process of data collection in marketing research. These small business houses create self employment and income opportunities and contribute to fast economic growth in the transitional economy. The provision of credit has increasingly been regarded as an important tool for raising the income of small businesses. Similar to that of industries, in the case of the local small traders also, own funds occupy a pivotal place in the sources of financing. But with its growing importance and fast growing markets, credit financing could not remain aloof from this sector.

The banks offer credit facilities to the small traders on easy terms. Most of the assistance rendered by them is in the form of short term credit. Although the terms and conditions governing their credit flow to the small traders differ from bank to bank but all the banks offer generally concessional terms in matters of interest, margins of retained money etc. The

credit facilities can be availed by the small retail traders in the form of loans, overdraft, cash credit etc as the bank may so devise.

## **REVIEW OF LITERATURE**

An attempt is made to review the previous studies in the area of small business. Although various studies have emphasized the need and importance of small scale industries in the economic development of the country yet, so far, no significant examination has been found in the territory of the small retail traders and credit facilities provided to them. Hence this may be the maiden effort in this area and as a matter of fact literature available on this subject in Assam is very negligible. But some studies are available on other categories of small business.

In Assam, following are some of the important studies worth referring in this context. Dr. A. K. Sarmah, in his study has analyzed management problems in small scale industries. Dr. H. K. Baruah in his thesis 'Problems and prospects of small scale industries in north east region' has made detailed study on small scale industries and found sufficient evidence to suggest different aspects of small scale industries in the economic development of the state. Dr. Prabin Baishya in his thesis 'Small and Cottage Industries in Assam' has focused attention to the contribution of small scale industries in industrial development of small scale industries in Assam. Dr. Anil Kumar Borah in his thesis, 'A study of small enterprises and its role in economic development of Assam', has identified the importance of entrepreneurship and factors leading to industrial activity and development. Dr. Prodip Borthakur in his research 'Impact of incentives on growth of small scale industries in Assam: An analytical study in Sivasagar district' has stressed on the pattern and growth and problems of small scale industries. Mrs. Rani Mudiari Deka in her thesis 'A study in institutional finance relating to small scale industrial units in Assam' studies the flow of credit to this sector from financial institutions. Dr. N. C. Das, in his study, has identified the problems and prospects of 'Khadi and Village industries in Assam' and critically highlighted the need and importance of village industries in the development of the state etc.

## **OBJECTIVES**

The objectives of the present study are the following:

- To study the role of banks in small retail business.
- To identify the sources of finance for the small retail traders.
- To study the bank policies and schemes for credit to small retail traders.

## **RESEARCH METHODOLOGY**

The present study is a field based work but is an admixture of both primary and secondary data collected from various sources. Primary data was collected from small retail traders as well as from concerned officials of bank branches. The primary data were collected by administering structured questionnaires to the sampled respondents.

A method of multi-stage sampling has been adopted for carrying out the study because of the vast size of the population consisting of the small retail traders in the state. In the first stage,

the district, Kamrup (metro) has been selected randomly within the state of Assam. Subsequently, out of the various cities, Guwahati city has been chosen randomly within the selected district in the second stage. Finally, in the third stage, prime areas of the cities were taken up for study on a random basis. The study concentrates on the small retail traders and also the commercial banks operating in the city.

The survey was carried out in the prime locations of the city. The units for the study comprises of the small retail traders and commercial bank branches operating in Guwahati. Since no official list of the number of individual traders operating in this market was found, it was not possible to list them. A method of judgement sampling and stratified random sampling was deemed appropriate for selection of the sample units of small business traders, where initial stratification was done on the basis of the various activities of the traders. Out of 10 such groups formed based on the activities of the traders, 500 units were selected. Also 3 such bank branches viz., Assam Gramin Vikash Bank (AGVB), United Bank of India (UBI) and Commercial Bank (CB) were selected randomly which also form the units of the present study.

The secondary sources include web publications and the internet.

### **LIMITATIONS**

The research study is confined only to the prime areas of Guwahati city; as such it is not representative of the whole of Guwahati city. The study is based on only 500 samples and inferences derived there from may not be a true representation of the universe which is pertinent for the present study. Due to cost and time constraints also the study could not be undertaken in a massive manner.

### **ANALYSIS AND RESULTS**

#### **Role of Banks in Credit Contribution**

Small retail traders are capable of financing themselves with their own funds as well as through loaned funds while already existing ones can always utilize their profits to such cause. The following table shows the sources of funds of the sample units as per the survey on 500 such traders running their units in Guwahati.

**Table 1.** Distribution of Sources of Finance

<b>Sources</b>	<b>No. of units</b>	<b>Percentage (%)</b>
Plough back of profits	420	84
Own	220	44
Friends and relatives	190	38
Banks	100	20

**Source:** Field survey

Indigenous bankers and money lenders are important sources of supply of working capital to small business. A considerable number of small traders are dependent on their own internal resources. Only around 58% (38+20) of the total sample is having recourse to external funds for their needs with only 1/5<sup>th</sup> of the total units using the credit facilities provided by the

banks. Roughly 38% of the traders borrow funds from friends and relatives while the role of money lenders and mahajans is found to be insignificant.

**Table 2.** Sources of Bank Credit

Banks	No. of units	Percentage (%)
UBI	20	20
AGVB	50	50
OTHERS	30	30
CB	-	-
Total	100	100

**Source:** Self field survey

Only 20% traders borrow from banks out of which 30% credit needs are met by bank branches not undertaken for the study. The banks like AGVB and UBI have provided 50% and 20% of the working capital needs respectively, of such borrowing units in this region.

**Table 3.** Forms of Credit

Banks	Term loan	Cash credit	Total
UBI	20	-	20
AGVB	40	10	50
OTHERS	30	-	30
Total	90	10	100

**Source:** Self field survey

Out of the sample units, only 20% i.e., 100 units have availed themselves of the bank credit facilities. From Table 3 it is clear that AGVB is playing the lead role in providing credit to the small retail traders in Guwahati. AGVB has provided term loan to 40 units and also cash credit to 10 units. Other banks include those which have not been considered for the present study, play the second lead role by providing credit to 30 units involving only term loans while UBI provides term loans to 20 units only. As per the study on the sample units, CB has shown no active participation in this regard yet.

### **Schemes of Credit by Different Bank Branches in Guwahati**

Different schemes have been devised by the banks for serving the same purpose by providing credit to the small retail traders which are mentioned hereunder.

**Schemes under AGVB:** Asomi Trade Credit Scheme:- This is formulated to boost up trade advances backed by marketable tangible assets in the form of mortgage of immovable property or in the form of liquid securities like NSC/KVP/LIC policy (surrender value). The applicant should be registered or licensed trader and should exclusively bank with AGVB. Term loan is provided under this scheme having a maximum limit of 1 crore rupees and the maximum limit regarding working capital is 25 lakh rupees.

**Urban Credit Card Scheme:** Loan facility is given under cluster approach in urban areas for trade/services or business activity. The eligibility criteria include group of traders or

businessmen with business in the same market complex. Interest is charged at primary lending rate. Loan of a minimum amount of 5000 rupees and maximum 1.5 lakh rupees ( in case wife is co-borrower loan may be raised to 2 lakh rupees) subject to the condition that loan amount does not exceed 15 months net income of the applicant and total deduction does not exceed 60% of gross salary. It is provided in the form of both term loans and cash credit.

**Schemes of UBI:** United Bank of India with United Trade Credit Scheme helps all types of traders- retailers/ wholesalers engaged in trading of commodities including readymade garments, medicines and other merchandise or acting as distributors/ dealers of consumer goods, automobiles, etc. to get credit. The procedure for obtaining credit is also hassle free which just requires the submission of regular statements or periodical calculation of Drawing Power. The loan is given for the purpose of working capital as well as block capital finance. Those traders who are engaged in trade/ business/ service with any other activity like agriculture, manufacturing, construction or exports etc. and earning profit for at least two years are eligible for the loan.

The quantum of Loan is maximum 50 lakhs subject to 20% of the annual sales/turnover for the immediate preceding year or projected annual sales as per ITR/STR/AO, etc. However projected sales should not exceed 120% of actual sales achieved in immediate preceding year or 120% of average sales of last three years. Term Loan for fixed assets will be maximum three times of the cash profit of the immediate preceding year and in this case Debt Service Coverage Ratio (DSCR) of the project shall not be less than 1.75. As security deposit UBI takes mortgage of unencumbered and marketable immovable property and/ or securities like NSCs/ KVPs/ LIC policies etc. The inventories, receivables and other available movable fixed assets shall also be hypothecated to the Bank as collaterals. The bank charges as Processing fee 1% of the loan amount.

UBI also offers concession at the following conditions:

1. A concession of 0.50% in interest rate may be allowed for every 25% (of the limit) if liquid security provided.
2. On satisfactory conduct of the account, one time incentive by way of reduction in rate of interest to the extent of 0.25% p.a. shall be allowed at the beginning of 3rd year of operation, at the discretion of the sanctioning authority.
3. Concession will continue till the conduct of the a/c remains satisfactory and score 50 marks or above in credit rating.

The repayment rules of the loan are as follows:

The term loan is to be repaid within a maximum period of 60 months by equal monthly installments commencing one month after the date of disbursement. In case of overdraft the limit shall be valid for 12 months and renewable thereafter upon review.

**Schemes of Central Bank:** Cent Trade:- All traders including retailers, distributors etc are eligible for loan under this scheme. Normally it is provided in the form of overdraft. However, on request of the borrower, term loan can be considered depending upon repaying capacity and cash flow of the borrower. The limit is to be assessed as per turnover method

i.e., 20% of the projected annual sales. The overdraft limit shall be for a period of 12 months and renewed/reviewed annually.

**Cent Vyapari:** All types of small traders including retailers and distributors are eligible for obtaining credit under this scheme. Cash credit against paid stock and receivables up to a maximum of 20 lakh rupees per borrower is allowed. It is repayable on demand and renewed/ reviewed every year. The borrower is to exclusively deal with CB. Credit reports from the previous banker, if any, are to be submitted. Securities offered to banks to be comprehensively insured for full value. Drawing power is calculated on monthly basis on the basis of stock statement and/or book debt statements submitted. Book debts must be certified by Chartered Accountant on quarterly interval.

### **RECOMMENDATION AND CONCLUSION**

As the concluding remark it can be rightly said that the contribution of the commercial banks in financing the working capital needs of the small retail traders is sparse. There is ample scope of growth and development of small retail business which is seen to accommodate a mix of sources of finance especially the plough back of profits. This is a good sign as the small traders are more dependent on the revenue generated from their business. This is a progressive sign indicating that the small trade is quite profitable. But the role of commercial banks in enhancing the efficiency of such business also cannot be denied.

Adequate facilities are provided by the banks which remain underutilized or so unutilized, to a great extent. Steps need to be taken in order to make use of the schemes so generated by the banks and increase their contribution in the growth of the small business through their active participation by providing finance or credit facilities.

Every research study covers a defined ambit and concentrates on that particular area of interest. Scope of future research throws light on the pockets in the similar area that can be taken up for study by others in future.

Small business includes various categories of business. One of them is the small traders, which has only been concentrated on, in the present study. In future, researches on other categories of small business can be made. The present study focuses on the credit facilities provided to the small traders. Studies relating to their profitability and liquidity analysis can also be taken up.

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